

## Endowment Match Program Status Report

The trust fund status report that was presented to the council at its February 3 meeting contained a report on the investment and incentive trust funds established through House Bill 1. The report examined the sources and uses of match program funds for FY 2001-02. Council members asked for additional information regarding audit compliance, diversity, and pledge collection. A summary of the information follows.

### *Audit Compliance*

Potter & Company, LLC, the council's external auditors, noted both in the 2000-01 and 2001-02 audit report (Finding 02-6) that the language in the Regional University Excellence Trust Fund states the purpose of the trust fund is to encourage the comprehensive universities to develop at least "one nationally recognized program of distinction or one nationally recognized applied research program." The Bucks for Brains program was created in 2000 as an independent program with funds located in the Research Challenge Trust Fund and the Regional University Excellence Trust Fund. It was never intended that the Bucks for Brains dollars be limited to a single, nationally recognized program of distinction or nationally recognized applied research program. The council guidelines allow the comprehensive universities to match endowment funds in areas other than those suggested by the statute. The council agreed to provide language to the executive branch for inclusion in the 2002-04 appropriations bill. The council did so during discussions with the state budget office in 2002 and again in 2003. The requested changes are incorporated in the proposed 2002-04 appropriations bill.

The agency's external auditors also noted that, while the council guidelines permit the comprehensive universities to request a limited amount of funds in the arts and humanities, there is no definition of "limited" in the guidelines that allows for an evaluation of whether requests conform to the guidelines. The council staff proposes to report institutional endowment activity in the arts and humanities to the council so the council can determine whether or not institutional requests in the arts and humanities are, in fact, limited.

### *Pledge Collection*

According to council guidelines, pledges are eligible for state match provided they are based on a written contract or agreement and include a payment schedule that does not exceed five years from the initial pledge date. University officials are required to notify the council staff of the possibility of unpaid pledges six months before the end of the five-year deadline, or immediately when a gift has been revoked.

In July 2002, the Endowment Match Program entered its fifth year of operation. This milestone is significant in that pledges matched during the program's first year (FY 1999) are due by June 30, 2003. The council staff disbursed \$100 million of 1998-2000 program funds to the University of Kentucky and the University of Louisville in 1999 and 2000. Of that amount, \$38.7 million was matched against cash or cash equivalent gifts, and \$61.3 million was matched against pledges (see Table 1). By June 30, 2002, nearly 70 percent of the pledges had been paid, leaving a balance of about \$19.5 million in pledges outstanding.

Following the February 3 council meeting, university officials were asked to provide an assessment of outstanding pledges (as reported June 30, 2002) that are due between March 1, 2003, and March 1, 2004. Using information contained in the 2001-02 match program reports, the council staff identified three pledges totaling \$891,309 at the University of Louisville and 29 pledges totaling \$9,744,202 at the University of Kentucky that are due by March 1, 2004. Campus officials were asked to assess the likelihood of collecting the full amount of these pledges by the due date. The University of Louisville reports that the \$891,309 coming due by March 1, 2004, has already been paid. The University of Kentucky reports that \$933,568 has been paid since June 30, 2002, and expects another \$8,016,659 to be paid on time. According to university officials, it is doubtful that the remaining \$793,975 will be paid by the due date, since the donor has requested more time to complete the pledge. Council guidelines stipulate that pledged funds not received within the required, five-year time frame must be replaced with another eligible cash gift or the unmatched portion of state funds (plus an allowance for accrued interest) will revert to the trust fund for reallocation. The council and the University of Kentucky staffs are discussing this matter.

### *Extension of Deadline to Match Comprehensive Institution Secondary Pool*

At its July 22 meeting, the council ratified a change in the match program guidelines, extending the deadline for submitting requests for 2000-02 program funds to December 31, 2002. As a result of this change, any comprehensive university funds not matched by the assigned institution by the December 31 deadline would become available for match by other comprehensive universities that had fully matched their program allocations by June 30, 2002.

When the December 31, 2002, deadline arrived, all institutions had submitted requests for their share of the endowment match funds; there were no unclaimed funds available for match by other institutions. Each of the six comprehensive universities submitted requests for the full amount of their respective 2000-02 match program appropriations prior to December 31, 2002. To date, the council staff has transferred \$119.1 million in 2000-02 program funds to the universities and is processing the remaining \$852,062 in pending requests (see Table 2).

### *Institutional Allocation and Use of Endowment Match Fund*

The 2000-02 Endowment Match Program Guidelines stipulate that at least 60 percent of match program funds disbursed to the research universities must be used to support the academic disciplines of engineering, technology, computer science, health sciences, life sciences, mathematics, or physical sciences. These areas are of strategic benefit to Kentucky and are core components of the knowledge-based economy.

The council staff, working in conjunction with campus officials, has determined that both of the state's research universities have satisfied the 60 percent requirement with respect to their use of 2000-02 program funds. The University of Kentucky received a total of \$66,667,000 of 2000-02 funds. Of that amount, \$40,082,544, or 60.1 percent, was used to establish or expand endowments in council priority areas. The University of Louisville used \$27,233,000, or 81.7 percent, of its \$33,333,000 allocation to create or enhance endowments in the priority areas.

### *Diversity*

During the 2002 legislative session, Senator Gerald Neal asked the council staff to provide information about the ethnicity of faculty occupying endowed chair and professorship positions established through the Endowment Match Program. The staff and university officials agreed that demographic information pertaining to program faculty and staff should be reported on an ongoing basis and that a timetable for increasing the diversity of program hires should be established. As a result of that agreement, a demographic component was added to program reporting procedures prior to submission of the 2000-01 annual reports. (Note: House Bill 269 [the budget bill just passed by the 2003 General Assembly] calls for the universities to develop and implement strategies for achieving reasonable diversity in the recruitment and retention of women, African Americans, and other underrepresented minorities for positions funded by the Endowment Match Program.)

The 2001-02 match program reports that were presented to the council at its February meeting show a gain in the number of women hired in endowed professorship positions. As can be seen in Table 3, about 21 percent of

endowed professors are female, up from 18 percent in 2001. The proportion of women occupying endowed chair positions remained relatively unchanged at around 12 percent. The results are mixed with respect to minority hires. The reports show an increase in the number of non-white faculty hired in endowed chair positions. As can be seen in Table 4, about 12 percent of endowed chairs are minorities, up from 8 percent in 2001. The proportion of non-white faculty occupying endowed professorship positions decreased from 15 percent in 2001 to 14 percent in 2002.

Additional progress has been made in the eight months following the end of the 2001-02 reporting period (i.e., since June 30, 2002). A recent ad hoc survey of chief budget officers indicates that the number of female faculty has increased from 25 to 33 and the number of minority faculty has increased from 19 to 22, with three newly filled positions held by African Americans.